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NOTES

RECENT UTTERANCES OF MR. HILL AND MR. HARRIMAN ON RAILWAY PROBLEMS

The discussion of transportation problems by such masters of railways as James J. Hill and Edward H. Harriman is increasing the great public interest which these questions naturally command. The position of these men secures for every utterance from them the widest publicity. Their intimate knowledge of railway and financial affairs makes them efficient instruments for enlightening and educating the public. If the men who know and do things will honestly tell the public what they know and how they do, the opportunity to form sane and intelligent judgment on these public questions will be greatly increased.

For some time Mr. Hill has freely given his views on industrial problems. His address on "The Future of Agriculture in America," delivered at the state fair of Minnesota, has rarely been equaled in wisdom by the utterance of any public man. In his analysis of the situation and his suggestions of intelligent lines of action he demonstrates his ability as a wise and far-seeing leader of men. His speech on Canadian reciprocity is also deserving of high commendation.

In his testimony before the Interstate Commerce Commission at Milwaukee, November 22, Mr. Hill gets closer to his own line of business and states with authority a principle which outsiders have before suggested as a wise rule of action to guide railroad men. He informs the public that no employee of the Great Northern Railroad is allowed to own stock or be in any way interested in any industry along the line of the road. If the Pennsylvania and many other lines had rigidly adhered to this principle, we should have been spared some of the disgraceful disclosures of the recent past. The transportation business is big enough and intricate enough to command the entire energy and ability of those who devote themselves to it. The conflict of interest which arises when the same person is shipper and carrier can bring so many disastrous results that the only safe policy is to confine the transportation agencies and the transportation employees to the transportation business.

The greatest danger on this head, however, does not come because minor employees become interested in industries which they may aid by using their power as agents of the railway. A large amount of petty grafting may arise from this conflict of interests. But the location of cities and industries; the prosperity or failure of important business enterprises, is not determined by the action of subordinate officials. If the men who own and manage the railways had rigidly enforced the rule against themselves and against their railways which is applied to the employees of the Great Northern system, there is a strong suspicion that not merely petty grafting, but grand larceny on a great scale, would have been prevented. How many railway presidents, directors, or managers have been interested in town sites, mines, timber lands, or factories located on their lines, or steamships connecting therewith, the values of which properties have been increased by abuse of the trust reposed in railroad officials by the stockholders? How many men to whom railway investors have intrusted the management of their property have abused that trust by selling at exorbitant prices branch lines of railway, steamships, or other property to the company they are managing? How do the losses and industrial injury due to the conflict of interest when the railway president or manager undertakes to represent both sides, compare with the losses or injury due to a similar violation of principle by their subordinates? Does railway experience or insurance experience or banking experience warrant the conclusion that the big man can more safely be trusted than the little man to represent both sides where interests conflict? Will President Hill add to the public enlightenment by telling us if the same principle applies to himself and his associates, in control of the magnificent railway property he has built up, that is applied to the employees? Will he add the weight of his authority in developing right public sentiment on this matter by saying that the same principle should apply from the top to the bottom? If there are or should be exceptions, will he show us where and why?

The great industries of this country are developed and must be carried on by corporations. The corporate form of organization involves the management of property belonging to many by a few. The safety of the investor can be secured only by a development of law or of business morality or both, which will make it as impossible for a president or director of a railway, insurance com-

pany, or bank to represent both sides in a business transaction, as it is for a lawyer to accept a retainer from both sides in a legal conflict.

Until recently Edward H. Harriman has maintained an attitude of reserve quite in contrast with the freedom which James J. Hill has shown in giving his views to the public. Recent interviews printed, and speeches Mr. Harriman has been making, indicate that he, too, is now willing to recognize his obligations to the public and take an open part in the shaping of public sentiment. His silence in the past, he explains, was due to lack of time and fear that he would be misrepresented. Now his "never-failing belief in the good judgment and common-sense of the people of the United States" leads him to desire "agitation of these public questions, because agitation is only a synonym for education."

Unfortunately, the danger of misrepresentation is a serious one, which every public man must face. Is this danger lessened by a policy of reticence and secrecy? The man in control of vast transportation systems, industrial enterprises, or political organizations, who does not tell the public what he is doing and why he is doing it, may be sure that some reporter, magazine writer, or political agitator will tell. If the people of good judgment and common-sense can be given an opportunity to balance against each other the frank, honest statement of the man who is doing things, with the highly colored reports in the sensational press, purporting to tell how and why these men are acting, the influence of the yellow journal and the radical magazine will be weakened and saner public opinion will be formed. If our railroads and industrial enterprises are controlled and manipulated for speculative purposes, for the benefit of insiders, or in other ways that injure investors and the public, a clear, honest statement from the men in control cannot be expected.

If public opinion is sound and public judgment to be trusted, then the man in control of a public enterprise cannot justify any action which he will not frankly disclose to the public. If Mr. Harriman would exercise the influence with the people to which his position of leadership in the transportation industry entitles him, he has but to secure their confidence by giving them more reliable information and more intelligent advice than they can get elsewhere. False or misleading statements from him will naturally weaken or destroy his power to mold public sentiment on these

questions. Let us examine Mr. Harriman's recent interview, to see if he may be trusted as a leader.

Mr. Harriman says that he is a practical railway man and not a Wall Street man. If this statement be true, Mr. Harriman has been grossly abused by the public press, and the recent action with reference to the increase of dividend in Union Pacific stock and the manipulation of that stock in Wall Street should be frankly and honestly explained to the public by Mr. Harriman. He should also explain why the stock of the Chicago & Alton was doubled as soon as he obtained control of that property.

In discussing government ownership of railways, Mr. Harriman says that Chicago and other great industrial centers could not expect to get such increase of terminal facilities as they need if they had to wait for government action, but private enterprise furnishes transportation facilities far in advance of the need for them. The business men of our industrial centers who are waiting weeks and months for the delivery of goods that are standing on side-tracks at some point where inadequate terminal facilities lead to frequent or chronic congestion will hardly accept Mr. Harriman's statement that facilities are provided in advance of business under the present régime. The man who is waiting for his goods may not have sufficient imagination to think of any way in which the government could be slower than the private roads now are. The Stickney plan for relieving the terminal difficulties at Chicago has been advocated more or less urgently for twenty years, but the conflicting individual interests have prevented its adoption. It is hardly conceivable that the delay in adopting so great an improvement over the present method could have been worse under government ownership.

Mr. Harriman declares himself a firm believer in the people owning the railroads: "By this I do not mean government ownership, but I do believe that the widest possible distribution in ownership of railway properties is a most desirable thing." Does Mr. Harriman mean railway properties or railway stocks? The small investors who bought Union Pacific stock at high prices in the earlier history of that enterprise because good dividends were declared upon it, and found themselves a few years later called upon to pay an assessment upon their stock or surrender the property to the bondholders, realize the difference between ownership of railway property and ownership of railway

stock. In his interview Mr. Harriman does not make clear his meaning. In illustrating his point he says: "There have been instances in this country where the purchase of a railroad by other railroads has eliminated as high as 15,000 or 16,000 stock-holders." Apparently the reference is to the purchase of the Chicago, Burlington & Quincy road. Did the exchange of \$200 worth of bonds for one share of stock in that transaction lessen the number of people who owned that property? It vitally affected the control of the property, but did it change the ownership? Will Mr. Harriman inform us whether it is ownership or control of railway property which should be diffused as widely as possible? Or is it merely a large number of purchasers for watered stocks which is desired? The payment of excessive and unearned dividends has at times in the past produced this result, with much loss and sorrow to the purchasers. Whether Mr. Harriman is a Wall Street manipulator or not, he is undoubtedly in possession of facts which, if he will frankly state them, will do much to enlighten the public on this subject.

The bold statement is made that in this country railroad construction has preceded industrial and commercial development by at least a quarter of a century, and that this is true in no other country. Does Mr. Harriman tell the investors from whom he is seeking capital to construct new roads that they must wait twenty-five years for industrial development to make possible any returns on their investment? Does he know that under government ownership in Australia one of the most serious criticisms against the railway management has been that they borrowed capital to construct lines in advance of traffic needs, thus imposing heavy burdens on the taxpayers?

Mr. Harriman is quoted as saying: "More than thirty years ago men who had faith in the future of this country spent many millions of dollars in laying steel rails across a desert waste of country. They bridged a chasm to reach the Pacific coast at a time when there was not enough traffic west of the Rocky Mountains to pay for the grease used on the car wheels." Did private capital build this road? Official documents show that the United States government furnished the funds to pay the entire cost of the thousand miles of track across the desert, and to give the private corporation which had such great faith in the future of this country a profit of millions of dollars. For thirty years private

capitalists had refused to do what the government finally did—that is furnish the capital to build a line to the Pacific. The use of this illustration to prove that government is slower than private capitalists in furnishing transportation facilities shows either ignorance of the facts or a belief that the public is ignorant of the facts.

If, as Mr Harriman states, railways must be rebuilt every ten years, how can he justify building them twenty-five years before they are needed for traffic? Promoters' and manipulators' profits must be greater than the public has ever imagined, if we are to justify the fleecing of investors involved in building and rebuilding roads two and a half times before the industrial and commercial needs of the country require them.

The reporter, the magazine writer, the economist, and the student may be trusted to use historical illustrations more accurately and effectively in shaping public sentiment than Mr. Harriman has done in his recent interview. If he will leave history and deduction to the historians, and give us an honest statement of the facts of transportation as he is shaping them, he will render the greatest possible service in forming intelligent and sound public opinion, and will improve his own standing in the community.

WILLIAM HILL

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WOOD-PULP AND THE TARIFF

The paper-making and allied printing industries rank sixth in importance in the United States. The chief raw materials which enter into the making of paper are wood-pulp and rags. As the basis of all crude paper stock is simply cellulose isolated in the form of fibers of as great length as possible, theoretically any plant could furnish the raw material required. But till 1870 practically the only source of paper was cotton and linen rags, which had been already reduced almost to a pure cellulose by the processes of textile manufacture. Since that time wood-pulp has come more and more into use, in two forms—mechanically ground wood and chemical fiber, prepared by soaking the wood in sulphite or soda solutions. Today wood-pulp forms seven-eighths of the raw material used.¹ In England wide use is made of esparto fiber, but in this country wood-pulp rules supreme. Almost any wood may be used, but spruce and

¹ *Twelfth Census, Manufactures*, Vol. III, p. 1017.